



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION

861 SILVER LAKE BLVD.
CANNON BUILDING, SUITE 100
DOVER, DELAWARE 19904


TELEPHONE:
FAX:

(302) 736-7500
(302) 739-4849

February 24, 2015

MEMORANDUM

TO: The Chair and Members of the Commission

FROM: Toni Loper, Public Utilities Analyst 

SUBJECT: IN THE MATTER OF THE APPLICATION OF SUSSEX SHORES WATER COMPANY FOR APPROVAL TO ENTER INTO A LONG-TERM DEBT OBLIGATION (SUBMITTED JANUARY 22, 2015; FILED FEBRUARY 20, 2015) – PSC DOCKET NO. 15-0660

Application:

On February 20, 2015, Sussex Shores Water Company (“Sussex Shores” or the “Company”) filed an application (the “Application”) requesting approval to enter into a Single Advance Term Loan Facility (“Term Loan” or “Loan”) in the amount of \$600,000 from CoBank, ACB (“CoBank”). If this application is approved the Company anticipates using the proceeds to fund capital improvements.

The Term Loan would be with CoBank for a maximum of 25 years with even monthly principal payments, together with interest, over the life of the loan. Sussex Shores has indicated in its Application that the purpose of the Term Loan would be to fund capital improvements, which include replacement of some of Sussex Shores’ oldest distribution mains and laterals in the Sussex Shores Development. The Company indicated in the Application that these replacements are being accomplished now due to an agreement with Sussex County. The Application states that by engaging in the Term Loan and completing the replacement of the mains and laterals at this time costs to ratepayers would be minimized. The Company stated that if these replacements have to occur outside of the agreement with Sussex County the expense to ratepayers for repaving roads would be approximately 1.5 times higher than the cost of replacing the entire water system.

Staff’s Review:

Staff performed a review of the application for accuracy and completeness as set forth in Part D of 26 *Del. Admin. C.* §1002 entitled Minimum Filing Requirements for All Regulated Companies Subject to the Jurisdiction of the Public Service Commission (the “Minimum Filing Requirements”). Staff determined that, upon initial review, the application did not meet the requirements and notified the Company of the deficiencies requiring follow-up. The Company submitted a subsequent filing on February 18, 2015 which required Staff to engage in additional discovery with the Company regarding the purpose for which the Loan proceeds would be used. The Company filed an amendment to the

Application on February 20, 2015 addressing this issue, modifying the purpose of the Loan proceeds to reflect that short-term debt would not be retired with this issuance as filed in the original application. This amendment corrected all deficiencies. Staff reviewed the supporting documentation provided by the Company including the Ownership of Voting Stock and Opinion of Counsel. Also submitted was a schedule of capitalization ratios for the twelve (12) months ended December 31, 2014. As required by Section 2.1.3 of the Minimum Filing Requirements and based upon Schedule No. 1 of the Application, the table below details the before and after issuance of the long-term debt effects on the debt to equity ratios:

	Before Issuance	After Issuance
Debt Percentage	45.50%	54.29%
Equity Percentage	54.50%	45.71%

Staff has also reviewed the legal opinion dated February 13, 2015 prepared by counsel to the Company regarding the legality of the proposed issuance of long-term debt. The legal opinion represented that based on its knowledge of 26 *Del. C.* §215 and its regulatory and judicial interpretation and application, the proposed issuance of long-term debt for the purposes set forth in the application is valid and in accordance with law.

Staff's Recommendation:

Based on Staff's review, the Application complies with 26 *Del. C.* §215 because the issuance of long-term debt is made in accordance with law, for a proper purpose and is consistent with the public interest. Therefore, Staff recommends that the Commission approve the Application subject to the conditions that the Company (i) may not construe this approval as ratemaking treatment for future filings; (ii) obtain any necessary approval by Sussex Shores' Board of Directors, and (iii) within 30 days of the date of the closing of the Loan the Company must file copies of its fully-executed Loan Agreement and any other related documents necessary to complete this transaction.